



Section 6: Financial Update

Activities/Milestones Last Quarter

FY04/06 Biennium Budget Request for General and Special Funds

For its general and special funds, VITA developed its FY04/06 biennium budget requests, which were approved by the Information Technology Investment Board at its November 5, 2003 meeting. The approved initiatives, shown with associated dollar estimates at Appendix 6-1, include:

- CIO compensation;
- Agency transition funds, to support transition costs in the agencies;
- Continued VITA start-up costs;
- Statewide acquisition services support;
- Start-up equipment out-year costs;
- Project management requirements, to support *Code* requirements;
- Administrative support for general and special fund programs;
- Server consolidation investment, to achieve savings; and
- E-911 technology improvements (based upon approval by the Wireless E-911 Services Board, which occurred on November 12, 2003).

These requests were considered along with all other agencies' requests in the development of the Commonwealth's proposed biennial budget. The following VITA requests were included in the Governor's Executive Budget submitted to the General Assembly on December 17, 2003:

- Continued VITA start-up costs (\$4.874 million in general funds in FY05);
- Start-up equipment out-year costs (\$0.519 million in general funds in FY05 and FY06);
- E-911 technology improvements (\$1.0 million in non-general funds in FY05 and FY06).

Section Highlights:

- *Interim rates for new services were reviewed and approved by the IT Investment Board and JLARC.*
- *FY04-FY06 revenue and expense estimates were developed for all services.*
- *FY04/06 Biennium Budget Requests were approved by IT Investment Board and submitted to the Department of Planning and Budget. A number of those requests were included in the Governor's Executive Budget.*
- *FY 04 general funds for start-up costs have been received.*
- *Revised VITA revenue and expense projections indicate an \$8.3 million shortfall in FY 04 and surpluses of \$1.8 million and \$3.4 million, respectively, in FYs 05 and 06.*

In addition to the above, the Executive Budget included the following two changes:

- An increase of \$1.9 million in general funds in FY05 to consolidate e-mail systems throughout Commonwealth agencies;
- A decrease of \$1.644 million in general funds in FY06 from the achievement of efficiency savings.

These funds, if approved by the General Assembly, will allow VITA to continue its consolidation efforts in FY05 and FY06. In regards to initiatives that were not included in the Governor's Budget:

- CIO compensation costs will be funded through VITA's internal service funds.
- Agency transition funds will be addressed in partnership with the Secretary of Finance in mid-year amendments to the FY05 – FY06 state budget that will be prepared and presented for the 2005 General Assembly session.
- Statewide acquisition services support will continue to be funded through VITA's Industrial Funding Adjustment program.
- Project management requirements will be funded through means yet to be determined or through reductions to the scope and/or pace of these improvements.
- Administrative support for general and special programs will be funded through means yet to be determined.
- Server consolidation investment will be considered using internal service funds.

Revenue and Expense Estimates

VITA has three basic fund types (general funds, special funds and internal service funds), each of which is described in further detail below. Appendix 6-2 provides revenue and expense estimates for all funds.

General Funds

General funds are appropriated by the General Assembly and provide funding for:

- Project management and enterprise-wide strategic planning and policy programs (Strategic Management Services Directorate);
- Statewide coordination for geographic information systems and related applications (VGIN Division); and
- VITA start-up initiatives, including the establishment of the VITA Customer Care Center for help desk and service desk customer support, security and disaster recovery, the VITA Information Center for products to analyze and manage VITA's statewide data network, and limited desktop services.

Because general funds must be used in the year appropriated and expenses may not exceed appropriations, revenues and expenses are equal. For FY04, general funds provide \$7.5 million, or 3 percent, of VITA's total projected expenses.

Special Funds

Special funds are also appropriated by the General Assembly, and provide funding for the following specific purposes:

- Web portal and web services (VIPNet);
- Supplemental funds for geographic information systems and related applications (VGIN Division);
- Grants to Virginia localities for deployment of enhanced emergency telecommunications systems (E-911 localities fund);
- Grants to wireless system providers to support deployment of enhanced emergency telecommunications systems (E-911 providers fund); and
- Operating support to the E-911 program (Public Safety Communications Division).

For FY04, VITA is projecting Special Funds spending to account for \$67.7 million, or 30 percent, of its total projected expenses.

Internal Service Funds

Internal service funds are used by VITA to recover the costs of the services it provides to its customers. VITA charges for the services it provides through rates that are approved by the IT Investment Board and the Joint Legislative Audit and Review Commission (JLARC).

For VITA's internal service funds, projections have been revised since the August 2003 Operating Plan for planned revenues and expenditures associated with both existing and new services. New services include desktop and laptop support, server support, and network equipment and other hardware. Projections for these new services are based on the transition schedule shown in Section 2 of this report.

Shortfalls are now projected in Fiscal Year 2004 based on additional VITA staffing and related expenses in FY04 necessary to gear up for the statewide IT consolidation effort, reduced revenues and increased expenses associated with the new COVANET telecommunications contract, and elimination of an anticipated under-spending estimate that was included in the previous projection. Fiscal Years 2005 and 2006 project a small surplus each year. VITA financial staff is continuing to refine these estimates as new information becomes available.

For FY04, VITA is projecting to spend \$152.2 million in its internal service funds, which accounts for 67 percent of total spending.

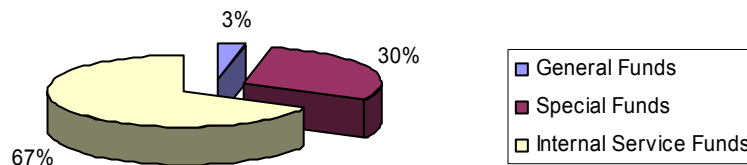
As previously reported in the August 2003 Operating Plan, \$14 million in general funds was provided for "start-up" costs in the 2003 Appropriation Act. These funds are being expended as follows:

- \$3.7 million to hold harmless small and medium agencies for FY04 IT savings deducted from their budgets in the 2003 Appropriation Act;
- \$3.3 million for the VITA Information Center;
- \$3.2 million for the VITA Customer Care Center;
- \$2.7 million for network security, including VITANet;
- \$0.2 million for desktop services;

- \$0.6 million for VDOT transition support; and
- \$0.3 million for agency standardization and optimization needs.

Of these amounts, approximately \$1 million in equipment purchases will be financed over the FY05—06 periods. Additionally, the Secretary of Finance and the Secretary of Technology have agreed that approximately \$4 million for these start-up expenses will be charged to VITA's internal service funds accounts in lieu of a \$4 million transfer for IT savings from these same accounts. The net effect to VITA is zero, but \$4 million in expenses will be shifted from general funds to internal service funds in FY04.

Exhibit 6-1
FY 04 Expenditure Estimates by Fund



Rates for New Services

VITA has developed interim rates, shown in Appendix 6-3, for new services that it will provide to its customers for desktop and laptop support, server support and network equipment and other hardware. These rates were approved by the Information Technology Investment Board on December 1, 2003 and by JLARC on December 8, 2003. JLARC placed the following conditions on its approval of these interim rates:

- The rates shall be effective from November 1, 2003 to September 30, 2004.
- VITA shall develop a policy for implementation of equipment credits and budget savings assessed in the adopted budget by January 15, 2004.
- VITA shall not negotiate reduced rates, discounts or variations from the approved rates with individual agencies.
- VITA shall not accelerate from the statutory schedule the consolidation of any agency prior to the deployment of a billing system that has been approved by the Auditor of Public Accounts.
- VITA shall provide to the Joint Legislative Audit and Review Commission and the Auditor of Public Accounts a monthly report on profit and loss showing actual retained earnings.

Failure of VITA to comply with any of the conditions set out in JLARC's approval of rates will be cause for an immediate review and reconsideration of the rates by the Commission.

Further, a commitment has been made to JLARC by VITA to review these interim rates based on June 30, 2004, information and provide recommended changes as necessary.

Based on information gathered by VITA during its "due diligence" inventory efforts earlier this year, VITA will be supporting and charging customers through this interim rate structure for 2,968 servers; 49,588 desktops; 8,133 laptops; 5,841 telecommunications data devices; 1,868 telecommunications voice devices; and 122 other hardware devices. The proposed rates include service support personnel, VITA Customer Care Center (help desk and service desk) support, security hardware and support, annual licensing, hardware replacement and maintenance, server operating system software, desktop standard software suite (operating system, anti-virus, email, and office automation products), LAN shared peripherals, and disposal service support.

Billing Systems

VITA is in the process of defining and implementing both short- and long-term plans to upgrade or replace its billing systems in order to accommodate its new services.

In the short-term, VITA will use its Miscellaneous Billing System to support billing for small agencies while upgrading one of its automated systems in order to bill all agencies for new services. For the longer term, new commercial-off-the-shelf billing applications will be explored early in 2004 to replace existing systems for all services, as well as to integrate with an asset inventory system and the agency's procurement system, creating a seamless process for ordering equipment, updating inventory data, and creating bills from the same database.

Savings, Cost Avoidance, and Productivity Gain Initiatives

VITA is committed to producing savings associated with the Commonwealth's information technology consolidation as quickly as possible. Key to achieving those savings is to transition first, transform second. A number of initiatives are under review while others have been accomplished.

Exhibit 6-2 lists the annualized savings amounts projected from the major initiatives that have been accomplished thus far in FY04.

Exhibit 6-2
VITA Savings Initiatives Accomplished To-Date

Initiative	Annualized Savings/Cost Avoidance
Procurement Initiatives	\$10,700,000/cost avoidance
Cell Phone Plan Analysis	\$1,186,000/savings
Voice and Data Service Contract Rate Reductions	\$528,000/savings
COVANET Contract Savings	\$3,084,800/savings

An additional \$5 million in savings will be achieved in FY06 related to efficiency efforts and technology enhancements.

The following major savings initiatives are under review:

- Centralized system/network management;
- Consolidation of COVANET infrastructure;
- Enterprise message consolidation;
- Help Desk consolidation;
- Software license consolidation;
- Standard desktop imaging;
- Interactive voice response system;
- E-mail consolidation;
- Local telecommunications service rate reductions; and
- Statewide call center.

It is important to note that savings generally accrue in the agencies that VITA supports. As VITA lowers information technology costs, they are passed along to the agencies in the form of rate reductions. Savings are not maintained at VITA. Both Secretary of Technology and VITA staff are in discussions with senior Commonwealth leadership and the Information Technology Investment Board on ways to redirect savings for future technology investments.

Auditor of Public Accounts Review

The Auditor of Public Accounts completed its review of VITA's internal controls and automated systems to determine if they are sufficient to provide the Information Technology Investment Board and the Chief Information Officer with timely and accurate financial information. A draft of the report has been received by VITA and it will be reviewed and discussed with the Information Technology Investment Board. A final report is expected to be issued in early 2004.

Activities/Milestones Next Quarter & Beyond

Finance Initiatives

In the coming quarter, several initiatives are being undertaken in the financial arena:

- Continued refinement of the internal service fund financial plan;
- Finalization of plans to upgrade or replace VITA billing systems and related asset inventory systems;
- Approval of revised VITA directorate budgets to reflect final FY04 decisions and increases necessary for support of transitioned agencies;
- Continued review of savings, cost avoidance and productivity gain initiatives; and
- Establishment of an agency performance indicator monitoring process.

Performance Indicators

VITA will be utilizing the following monthly performance indicators to monitor financial performance for the agency:

- Budget versus actual variances;
- Prompt payment performance;
- Percent of reports completed according to schedule;
- Percent of billings provided to agencies according to schedule;
- Receivables aging; and
- Percent of telecommunications vendor invoice amounts withheld by VITA.